

CITY OF NORTH MUSKEGON
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

November 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF NORTH MUSKEGON	County MUSKEGON
Audit Date 11/30/04	Opinion Date 1/13/05	Date Accountant Report Submitted to State: 3/8/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) HOFFMAN, STEENSMA & PLAMONDON, P.L.C.			
Street Address 221 W. WEBSTER AVENUE, SUITE 502		City MUSKEGON	State MI
Accountant Signature <i>Douglas A. Plamondon, CPA</i>		ZIP 49440	Date 3-8-05

CITY OF NORTH MUSKEGON

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the
City Council of the City of North Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of North Muskegon, Michigan (the "city"), as of and for the year ended November 30, 2004, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of North Muskegon, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of North Muskegon, Michigan, as of November 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note A to financial statements, the City of North Muskegon, Michigan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government Omnibus* and GASB 38, *Certain Financial Statement Note Disclosures*, as of December 1, 2003.

The management's discussion and analysis and the required supplementary information on pages 6 - 13 and pages 48 - 54 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of North Muskegon, Michigan's basic financial statements. The accompanying supplemental financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hoffman, Steenema & Plamondon, P.L.C.

January 13, 2005

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis

Year Ended November 30, 2004

Our discussion and analysis of the City of North Muskegon's financial performance provides an overview of the city's financial activities for the year ended November 30, 2004. Please read it in conjunction with the city's financial statements, which begin on page 14.

The changes in the enclosed audit document have been mandated by the Governmental Accounting Standards Board (GASB) Statement 34. In the first year of implementation of this standard, GASB recognizes that prior year information is not available in a similar format. Therefore, government-wide comparisons will not be available until next year.

Financial Highlights

- The city's net assets increased \$788,459 (or 8.06%) to \$10,574,231. The governmental net assets increased by \$502,638 (or 6.45%) to \$8,292,198 and the business-type net assets increased by \$285,821 (or 14.32%) to \$2,282,033.
- Total expenses of all the city's programs were \$3,157,457. Expenses of governmental activities totaled \$2,123,182 and expenses of business-type activities totaled \$1,034,275.
- Total revenues, including all program and general revenues, were \$3,945,916. Revenues of governmental activities totaled \$2,625,820 and the revenues of business-type activities amounted to \$1,320,096. Program revenues consist of direct charges and grants and contributions that are directly attributable to specific programs or functions. General revenues are largely comprised of property taxes, state revenue sharing, cable television fees and investment activity.
- The city received a federal Assistance to Firefighters grant of \$93,466 through the U.S. Department of Homeland Security for the purchase of new fire fighting equipment. As of November 30, 2004, \$53,900 of the grant has been spent.
- The city received a federal Coastal Zone Management grant of \$35,000 through the Michigan Department of Environmental Quality to be used for capital improvements to the city's parks. As of November 30, 2004, all of the grant funds have been spent and \$8,750 has been received.

Using this Annual Report

This annual report consists of a series of financial statements. The first two statements are government-wide financial statements that provide both long-term and short-term information about the city's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the government, reporting individual city operations in more detail than the government-wide statements.

- The governmental funds statements tell how general government services were financed in the short-term as well as what remains available for future spending.
- Proprietary fund statements offer short- and long-term financial information about activities the city operates like private businesses.
- Fiduciary fund statements provide information about the financial relationships in which the city acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis - Continued

Year Ended November 30, 2004

Reporting the City as a Whole

Our analysis of the city as a whole begins on page 8. One of the most important questions asked about the city's finances is, "Is the city as a whole better off or worse off as a result of the year's activities?" Since this is the first year that the City of North Muskegon is reporting its financial statements under the GASB 34 format, this question cannot be entirely answered due to the fact that comparison data does not exist. However, the statement of net assets and the statement of activities report information about the city as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the city's net assets and changes in them. The reader can think of the city's net assets - the difference between assets and liabilities - as one way to measure the city's financial health or financial position. Over time, increases or decreases in the city's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors, however, such as changes in the city's property tax base and the condition of the city's capital assets (roads, buildings, water and sewer lines) to assess the overall health of the city.

In the statement of net assets and the statement of activities, the city is divided into two kinds of activities:

- **Governmental activities** - Most of the city's basic services are reported here, including public safety, general administration, parks and recreation and streets. Property taxes and state shared revenues finance most of these activities.
- **Business-type activities** - The city charges a fee to customers to help it cover all or most of the cost of certain services provided. The city's water supply and sewer disposal systems are reported here.

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis - Continued

Year Ended November 30, 2004

Reporting the City's Most Significant Funds

Our analysis of the city's major funds begins on page 11. The fund financial statements begin on page 16 and provide detailed information about the most significant funds - not the city as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council has established several other funds to help it control and manage money for particular purposes. The city has the following kinds of funds:

- **Governmental funds** - Most of the city's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the city's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental funds in a reconciliation following the fund financial statements.
- **Proprietary funds** - When the city charges customers for the services it provides whether to outside customers or to other units of the city, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the city's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds, such as the city's Equipment Fund (the other component of proprietary funds) to report activities that provide supplies and services to the city's other programs and activities.
- **Fiduciary funds** - The city is the trustee, or fiduciary, for certain funds. The city is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the city's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the city's government-wide financial statements because the city cannot use these assets to finance its operations.

The City as a Whole

The city's combined net assets increased from a year ago, from \$9,785,772 to \$10,574,231. Our analysis focuses on the net assets and changes in net assets of the city's governmental and business-type activities.

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis - Continued

Year Ended November 30, 2004

The City as a Whole (continued)

Net assets as of November 30, 2004, follows:

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 1,997,785	\$ 1,135,162	\$ 3,132,947
Capital assets	6,653,011	2,301,815	8,954,826
Total assets	\$ 8,650,796	\$ 3,436,977	\$ 12,087,773
Long-term liabilities	\$ 192,360	\$ 1,020,958	\$ 1,213,318
Other liabilities	166,238	133,986	300,224
Total liabilities	\$ 358,598	\$ 1,154,944	\$ 1,513,542
Net assets			
Invested in capital assets, net of related debt	\$ 6,578,011	\$ 1,280,857	\$ 7,858,868
Restricted	1,484,534	-	1,484,534
Unrestricted	229,653	1,001,176	1,230,829
Total net assets	\$ 8,292,198	\$ 2,282,033	\$ 10,574,231

Net assets of the city's governmental activities are \$8,292,198. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements amounted to \$229,653. Restricted net assets, those restricted mainly for repayment of long-term debt, capital projects and special purposes such as street maintenance or construction amounted to \$1,484,534.

Net assets of our business-type activities were \$2,282,033.

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis - Continued

Year Ended November 30, 2004

The City as a Whole (continued)

Changes in net assets as of November 30, 2004, follows:

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 142,892	\$ 1,316,380	\$ 1,459,272
Operating grants and contributions	305,477	-	305,477
Capital grants and contributions	206,676	-	206,676
General revenues			
Property taxes	1,534,408	-	1,534,408
State shared revenues	342,733	-	342,733
Interest and rents	39,287	12,766	52,053
Cable television fees	21,684	-	21,684
Other	28,469	-	28,469
Loss on disposal of fixed assets	(4,856)	-	(4,856)
Transfers	9,050	(9,050)	-
Total revenues and transfers	2,625,820	1,320,096	3,945,916
Expenses			
Governmental activities			
General government	363,321	-	363,321
Public safety	633,034	-	633,034
Public works	406,575	-	406,575
Recreation and culture	194,499	-	194,499
Other functions	521,042	-	521,042
Interest on long-term debt	4,711	-	4,711
Business-type activities			
Water	-	734,920	734,920
Sewer	-	299,355	299,355
Total expenses	2,123,182	1,034,275	3,157,457
Changes in net assets	502,638	285,821	788,459
Net assets at beginning of year	7,789,560	1,996,212	9,785,772
Net assets at end of year	\$ 8,292,198	\$ 2,282,033	\$ 10,574,231

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis - Continued

Year Ended November 30, 2004

The City as a Whole (continued)

Since this is the first year reporting under the GASB 34 format, there is no previous year data to compare to this year's figures. Therefore, important facts will be simply stated for both governmental and business-type activities.

Governmental Activities

The city's ad valorem property tax millage rates for general operations and rubbish collection decreased by 0.07 and 0.66 mils respectively, causing a decrease in property tax revenues of \$45,000.

State sales tax revenue decreased by \$31,498 due to the current economic environment and budget shortfalls at the state.

Business-Type Activities

Water and sewer rates were increased 48% and 23%, respectively as of October of 2003. Water readiness-to-serve charges were increased 25%.

Financial Analysis of the City's Funds

At the end of fiscal year 2004, the governmental funds reported a combined fund balance of \$1,465,483 which is \$217,133 more than last year. The General Fund fund balance decreased by \$2,394. The fund balances of the Major Streets and the Local Streets Funds increased \$86,564 and \$25,871, respectively. The fund balances of the Contingent and Reserve and Public Safety Funds increased by \$1,616 and \$118,997, respectively.

General Fund Budgetary Highlights

The 2004 budget included several small capital improvement projects, in addition to normal budgetary appropriations. General fund monies of \$21,000 were budgeted, and later amended to \$30,000, for contractual services to replace damaged areas of the city's sidewalks.

The city's budget was amended periodically during the year. The most significant amendment was for monies transferred from the city's contingent and reserve fund of \$82,565 for various items including \$40,500 for grant matching funds for both the firefighters grant and the Block 58 grant, \$17,100 for a well and sprinkling system and \$14,465 for a Michigan Department of Environmental Quality final assessment report for the city's department of public works site.

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis - Continued **Year Ended November 30, 2004**

Capital Asset and Debt Administration

Capital Assets

At November 30, 2004, the city had \$8,954,826 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer lines. This amount includes a net increase (including additions and deductions) of \$485,788 or 5.74% over last year. Additional information on capital assets can be found in note C on pages 36 - 38 of the notes to the financial statements.

Long-Term Debt

At November 30, 2004 the city had \$1,213,318 in long-term debt outstanding. This is a decrease of \$174,940 from last year. Additional information on long-term debt can be found in note F on pages 41 - 42 of the notes to the financial statements.

The State of Michigan statutory and constitutional debt provisions allow for debt limits of 10% of the city's assessed value. Accordingly, the city could have debt outstanding of \$11.99 million. The city is below statutory and constitutional debt limits with outstanding debt of \$1,213,318.

Economic Factors and Next Year's Budgets and Rates

Property Tax Revenues

The city's charter allows for the collection of 10 mills per dollar of taxable value assessed to each property owner. The city's 2005 general operating millage rate has been rolled back to 9.5169 by the Headlee Amendment, which was designed to limit the growth of property tax revenue by controlling the formula used to calculate property taxes. In addition to the operating millage, the city will be collecting 1.617 of an allowable 2.5 mills for yard waste collection and 1.5 mills, as part of a 10-year charter amendment, for public safety equipment purchases and Ruddiman road improvements.

Michigan state property tax revenue increases are also greatly influenced by the 1994 Amendment to the State Constitution, commonly referred to as "Proposal A". The statewide tax reform amendment limits the growth in taxable value on any unsold individual property to the lesser of inflation or 5 percent. When property is transferred, the resulting Headlee rollback, caused by the uncapping of taxable values, actually results in other property owners paying less than the rate of inflation. Because the City of North Muskegon is a "mature" community with few parcels available for the building of new homes, the effect of this rollback is magnified. The result is another downward trend in the city's revenues.

State Shared Revenues

Typically, the second largest source of municipal revenue is state shared sales tax revenues. Over the past several years, the state's budget challenges have caused a reduction in revenue sharing payments to local governmental units. Over the past five years the city's general fund has experienced a total reduction in state shared revenues of \$91,044 as compared to fiscal year 2000 levels. The 2005 budget reflects an additional estimated decrease of \$4,000 in state shared revenue payments.

CITY OF NORTH MUSKEGON

Management's Discussion and Analysis - Continued **Year Ended November 30, 2004**

Economic Factors and Next Year's Budgets and Rates (continued)

2005 Budget

The 2005 general fund budget reflects an increase over 2004 levels of approximately \$160,000. The major streets fund budget for fiscal year 2005 includes revenues and expenditures from a grant in the amount of \$960,000 from the Michigan Department of Transportation and bond proceeds of \$1,140,000 for the removal and reconstruction of a large section of Ruddiman road, the city's main thoroughfare. The bond will be repaid using a 1.5 mill property tax levy authorized by a 10-year charter amendment.

Sewer and Water Rates

The city purchases its water from the City of Muskegon's water treatment plant. Due to two previous rate increases prior to calendar year 2004, resulting in a 75% increase in rates charged, the city adopted a two step plan to increase water rates. The first step was implemented in 2004 and the second step of the increase will occur in the first quarter of 2005. The city was assisted by its accounting firm in determining the amount of these increases that will help enable the water fund to continue to finance its operations, maintain its equipment and meet its fiscal obligations. In addition, based on a similar rate study, sewer rates were also increased in a two step process. The first step was implemented in 2004 and the second step of this increase will occur in the first quarter of 2005.

Contacting the City's Financial Management

This financial report is designated to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the city's finances and to demonstrate the city's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Office at 1502 Ruddiman Avenue, North Muskegon, Michigan 49445-3098 or call (231) 744-1621.

CITY OF NORTH MUSKEGON

Statement of Net Assets

November 30, 2004

ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents (note A5 and B)	\$ 1,716,739	\$ 648,078	\$ 2,364,817
Receivables			
Accounts	56	287,139	287,195
Special Assessments			
Current	15,105	14,258	29,363
Noncurrent	100,259	108,514	208,773
Taxes	3,822	-	3,822
Internal balances	28,344	(27,692)	652
Due from other governmental units	128,460	-	128,460
Inventories (note A8)	5,000	29,200	34,200
Deferred charge	-	10,653	10,653
Wastewater facility rights (net of accumulated amortization of \$227,492) (note K)	-	65,012	65,012
	1,997,785	1,135,162	3,132,947
Capital assets (note A9 and C)			
Land, construction in progress and other assets not being depreciated	5,075,781	1,500	5,077,281
Other capital assets, net of depreciation	1,577,230	2,300,315	3,877,545
Total capital assets	6,653,011	2,301,815	8,954,826
TOTAL ASSETS	\$ 8,650,796	\$ 3,436,977	\$ 12,087,773

The notes to the financial statements are an integral part of this statement.

LIABILITIES AND NET ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	\$ 126,982	\$ 12,406	\$ 139,388
Accrued liabilities	22,940	8,280	31,220
Due to other governmental units	-	113,300	113,300
Deferred revenue	16,316	-	16,316
	166,238	133,986	300,224
Long-term liabilities (note A10, A11 and F)			
Due within one year			
Bonds payable	10,000	77,000	87,000
Compensated absences payable	11,736	-	11,736
Due in more than one year			
Bonds payable	65,000	943,958	1,008,958
Compensated absences payable	105,624	-	105,624
Total long-term liabilities	192,360	1,020,958	1,213,318
Total liabilities	358,598	1,154,944	1,513,542
Net assets			
Invested in capital assets, net of related debt	6,578,011	1,280,857	7,858,868
Restricted for			
Streets and highways	759,244	-	759,244
Debt service	706,229	-	706,229
Capital projects	19,061	-	19,061
Unrestricted	229,653	1,001,176	1,230,829
Total net assets	8,292,198	2,282,033	10,574,231
TOTAL LIABILITIES AND NET ASSETS	\$ 8,650,796	\$ 3,436,977	\$ 12,087,773

CITY OF NORTH MUSKEGON

Statement of Activities

Year Ended November 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating	Capital
		Services	Grants and	Grants and
			Contributions	Contributions
Governmental activities				
General government	\$ 363,321	\$ 17,668	\$ -	\$ -
Public safety	633,034	86,541	-	53,900
Public works	406,575	25,330	305,477	116,637
Recreation and culture	194,499	13,353	-	36,139
Other functions	521,042	-	-	-
Interest on long-term debt	4,711	-	-	-
Total governmental activities	2,123,182	142,892	305,477	206,676
Business-type activities				
Water	734,920	998,482	-	-
Sewer	299,355	317,898	-	-
Total business-type activities	1,034,275	1,316,380	-	-
Total	\$ 3,157,457	\$ 1,459,272	\$ 305,477	\$ 206,676

General revenues

Property taxes

State shared revenues

Interest and rents

Cable television fees

Other

Loss on disposal of fixed assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The notes to the financial statements are an integral part of this statement.

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business- Type Activities	Total
\$ (345,653)	\$ -	\$ (345,653)
(492,593)	-	(492,593)
40,869	-	40,869
(145,007)	-	(145,007)
(521,042)	-	(521,042)
(4,711)	-	(4,711)
<u>(1,468,137)</u>	<u>-</u>	<u>(1,468,137)</u>
-	263,562	263,562
-	18,543	18,543
-	282,105	282,105
<u>(1,468,137)</u>	<u>282,105</u>	<u>(1,186,032)</u>
1,534,408	-	1,534,408
342,733	-	342,733
39,287	12,766	52,053
21,684	-	21,684
28,469	-	28,469
(4,856)	-	(4,856)
9,050	(9,050)	-
<u>1,970,775</u>	<u>3,716</u>	<u>1,974,491</u>
502,638	285,821	788,459
<u>7,789,560</u>	<u>1,996,212</u>	<u>9,785,772</u>
<u>\$ 8,292,198</u>	<u>\$ 2,282,033</u>	<u>\$ 10,574,231</u>

CITY OF NORTH MUSKEGON

Governmental Funds

Balance Sheet

November 30, 2004

		Major	Local	Contingent
ASSETS	General	Streets	Streets	and Reserve
Cash and cash equivalents (note A5 and B)	\$ 120,073	\$ 351,374	\$ 313,523	\$ 382,585
Receivables				
Accounts	55	-	-	-
Special assessments	3,381	-	99,810	-
Taxes	3,569	-	-	-
Due from other funds (note D)	26,231	342	-	34,818
Advances to other funds (note D)	-	-	-	153,673
Due from other governmental units	87,161	30,425	10,874	-
TOTAL ASSETS	\$ 240,470	\$ 382,141	\$ 424,207	\$ 571,076
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 116,880	\$ 6,257	\$ 250	\$ -
Accrued liabilities	21,568	305	125	-
Due to other funds (note D)	60,706	568	2,991	-
Advances from other funds (note D)	-	-	-	-
Deferred revenue (note A3)	16,316	-	89,829	-
Total liabilities	215,470	7,130	93,195	-
Fund balances (note A12)				
Reserved for advances	-	-	-	153,673
Unreserved				
Undesignated, reported in				
General fund	25,000	-	-	-
Special revenue funds	-	375,011	331,012	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	417,403
Total fund balances	25,000	375,011	331,012	571,076
TOTAL LIABILITIES AND FUND BALANCES	\$ 240,470	\$ 382,141	\$ 424,207	\$ 571,076

The notes to the financial statements are an integral part of this statement.

Public Safety	Other Governmental Funds	Total Governmental Funds
\$ 237,790	\$ 77,631	\$ 1,482,976
-	-	55
-	12,173	115,364
253	-	3,822
-	-	61,391
-	-	153,673
-	-	128,460
<hr/>		
\$ 238,043	\$ 89,804	\$ 1,945,741

\$ -	\$ 261	\$ 123,648
-	89	22,087
-	10	64,275
120,000	33,673	153,673
-	10,430	116,575
<hr/>		
120,000	44,463	480,258
<hr/>		
-	-	153,673
<hr/>		
-	-	25,000
-	8,870	714,893
-	19,361	19,361
118,043	17,110	552,556
<hr/>		
118,043	45,341	1,465,483
<hr/>		
\$ 238,043	\$ 89,804	\$ 1,945,741

CITY OF NORTH MUSKEGON

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities November 30, 2004

Total governmental fund balances		\$	1,465,483
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	\$	8,085,875	
Accumulated depreciation		(1,630,058)	6,455,817
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.			
			100,259
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.			
Governmental bonds payable		(75,000)	
Accrued interest on the bonds		(300)	
Compensated absences		(117,360)	(192,660)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds that are reported with governmental activities.			
			463,299
Net assets of governmental activities		\$	8,292,198

The notes to the financial statements are an integral part of this statement.

CITY OF NORTH MUSKEGON

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended November 30, 2004

	General	Major Streets	Local Streets	Contingent and Reserve
Revenues				
Property taxes	\$ 1,354,420	\$ -	\$ -	\$ -
Licenses and permits	97,384	-	-	-
Federal grants	86,540	-	-	-
State revenues				
State shared revenues	340,423	210,959	75,372	-
Franchise fees	-	4,669	7,587	-
Charges for services	7,154	-	-	-
Special assessments	10,969	-	15,839	-
Fines and penalties	13,192	-	-	-
Reimbursements	30,284	-	-	-
Interest	7,795	3,265	3,623	3,689
Miscellaneous	57,218	-	-	-
Total revenues	2,005,379	218,893	102,421	3,689
Expenditures				
Current				
General government	363,863	-	-	-
Public safety	607,383	-	-	-
Public works	293,841	77,032	62,645	-
Culture and recreation	118,589	-	-	-
Other governmental functions	521,042	-	-	-
Capital outlay	118,728	55,297	-	-
Debt service				
Principal	59,000	-	10,000	-
Interest and fiscal charges	3,702	-	3,905	-
Total expenditures	2,086,148	132,329	76,550	-
Excess (deficiency) of revenues over expenditures	(80,769)	86,564	25,871	3,689
Other financing sources (uses)				
Transfers in	150,693	-	-	84,492
Transfers out	(72,318)	-	-	(86,565)
Total other financing sources (uses)	78,375	-	-	(2,073)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(2,394)	86,564	25,871	1,616
Fund balances at beginning of year	27,394	288,447	305,141	569,460
Fund balances at end of year	\$ 25,000	\$ 375,011	\$ 331,012	\$ 571,076

The notes to the financial statements are an integral part of this statement.

Public Safety	Other Governmental Funds	Total Governmental Funds
\$ 179,987	\$ -	\$ 1,534,407
-	-	97,384
-	-	86,540
-	-	626,754
-	-	12,256
-	13,353	20,507
-	3,333	30,141
-	-	13,192
-	-	30,284
1,888	1,955	22,215
-	5,290	62,508
181,875	23,931	2,536,188
-	-	363,863
-	-	607,383
-	-	433,518
-	20,774	139,363
-	-	521,042
-	-	174,025
-	12,000	81,000
-	304	7,911
-	33,078	2,328,105
181,875	(9,147)	208,083
-	4,000	239,185
(62,878)	(8,374)	(230,135)
(62,878)	(4,374)	9,050
118,997	(13,521)	217,133
(954)	58,862	1,248,350
\$ 118,043	\$ 45,341	\$ 1,465,483

CITY OF NORTH MUSKEGON

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended November 30, 2004

Net change in fund balances - total governmental funds \$ 217,133

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in
the statement of activities, the cost of those assets is depreciated over
their estimated useful lives.

Expenditures for capital assets	\$ 204,677	
Current year depreciation	(110,384)	94,293

Governmental funds recognize special assessments as revenue
as they become current, however, they are recognized in full
when levied in the statement of net assets. 86,495

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term debt
consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. Also, governmental funds
report the effect of issuance costs, premiums, discounts and similar items
when debt is first issued, whereas these amounts are deferred and amortized
in the statement of activities.

Principal payments	81,000	
Change in accrued interest	3,200	
Change in long-term compensated absences	20,784	104,984

Internal service funds are used by management to charge the costs of certain
activities to individual funds. The net change of the internal service funds
is reported with governmental activities. (267)

Change in net assets of governmental activities \$ 502,638

The notes to the financial statements are an integral part of this statement.

CITY OF NORTH MUSKEGON

Proprietary Funds

Statement of Fund Net Assets

November 30, 2004

	Business-Type Activities			Governmental Activities
	Water	Sewer	Total	Internal Service
ASSETS				
Current assets				
Cash and				
cash equivalents (note A5 and B)	\$ 358,416	\$ 289,662	\$ 648,078	\$ 233,763
Receivables				
Accounts	223,121	64,018	287,139	-
Special assessments	12,818	1,440	14,258	-
Due from other funds (note D)	-	-	-	31,228
Inventories (note A8)	26,200	3,000	29,200	5,000
Total current assets	620,555	358,120	978,675	269,991
Noncurrent assets				
Wastewater facility rights (net of accumulated amortization of \$227,492) (note K)	-	65,012	65,012	-
Deferred charge	10,653	-	10,653	-
Special assessments receivable	98,434	10,080	108,514	-
Capital assets (note A9 and C)				
Land, construction in progress and other assets not being depreciated	1,500	-	1,500	-
Other capital assets, net of depreciation	1,732,713	567,602	2,300,315	197,195
Total capital assets	1,734,213	567,602	2,301,815	197,195
Total noncurrent assets	1,843,300	642,694	2,485,994	197,195
TOTAL ASSETS	\$ 2,463,855	\$ 1,000,814	\$ 3,464,669	\$ 467,186

The notes to the financial statements are an integral part of this statement.

LIABILITIES AND NET ASSETS	Business-Type Activities			Governmental Activities
	Water	Sewer	Total	Internal Service
Liabilities				
Current liabilities				
Current maturities of long-term debt	\$ 48,000	\$ 29,000	\$ 77,000	\$ -
Accounts payable	11,584	822	12,406	3,334
Accrued liabilities	7,966	314	8,280	553
Due to other funds (note D)	18,874	8,818	27,692	-
Due to other governmental units	105,474	7,826	113,300	-
Total current liabilities	191,898	46,780	238,678	3,887
Noncurrent liabilities				
Long-term debt, less current maturities (note A11 and F)	843,850	100,108	943,958	-
Total liabilities	1,035,748	146,888	1,182,636	3,887
Net assets				
Invested in capital assets, net of related debt	842,363	438,494	1,280,857	197,195
Unrestricted	585,744	415,432	1,001,176	266,104
Total net assets	1,428,107	853,926	2,282,033	463,299
TOTAL LIABILITIES AND NET ASSETS	\$ 2,463,855	\$ 1,000,814	\$ 3,464,669	\$ 467,186

CITY OF NORTH MUSKEGON

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year Ended November 30, 2004

	Business-Type Activities			Governmental Activities
	Water	Sewer	Total	Internal Service
Operating revenues				
Charges for services	\$ 703,688	\$ 174,994	\$ 878,682	\$ -
Sewer sales - debt retirement	-	108,875	108,875	-
Fines and penalties	9,462	4,504	13,966	-
Installations	134,082	22,000	156,082	-
Equipment rentals	-	-	-	135,897
Miscellaneous	151,250	7,525	158,775	727
Total operating revenues	998,482	317,898	1,316,380	136,624
Operating expenses				
Operations				
Water purchased	419,477	-	419,477	-
Sewage treatment	-	115,846	115,846	-
Salaries and wages	50,817	18,385	69,202	12,483
Employee benefits	14,018	6,284	20,302	3,357
Contractual services	33,611	66,760	100,371	-
Materials and supplies	63,707	364	64,071	14,943
Equipment rental	14,835	4,628	19,463	-
Telephone	481	2,209	2,690	-
Maintenance and repairs	10,785	48	10,833	30,036
Insurance	1,710	4,058	5,768	7,410
Electricity	10,327	5,868	16,195	-
Conferences and workshops	1,149	29	1,178	-
Miscellaneous	12,665	10,527	23,192	1,136
Total operations	633,582	235,006	868,588	69,365
Administration	15,308	13,812	29,120	983
Depreciation and amortization	41,124	42,550	83,674	63,790
Total operating expenses	690,014	291,368	981,382	134,138
Operating income	308,468	26,530	334,998	2,486

The notes to the financial statements are an integral part of this statement.

CITY OF NORTH MUSKEGON

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets - Continued Year Ended November 30, 2004

	Business-Type Activities			Governmental Activities
	Water	Sewer	Total	Internal Service
Nonoperating revenues (expenses)				
Interest income	\$ 9,053	\$ 3,713	\$ 12,766	\$ 2,103
Loss on sale of capital assets	-	-	-	(4,856)
Interest expense	(44,906)	(7,987)	(52,893)	-
Total nonoperating expenses	(35,853)	(4,274)	(40,127)	(2,753)
 Income before transfers	 272,615	 22,256	 294,871	 (267)
Transfers				
Transfers out	(5,500)	(3,550)	(9,050)	-
 Change in net assets	 267,115	 18,706	 285,821	 (267)
Net assets at beginning of year	1,160,992	835,220	1,996,212	463,566
Net assets at end of year	\$ 1,428,107	\$ 853,926	\$ 2,282,033	\$ 463,299

The notes to the financial statements are an integral part of this statement.

CITY OF NORTH MUSKEGON

Proprietary Funds

Statement of Cash Flows

Year Ended November 30, 2004

	Business-Type Activities	
	Water	Sewer
Cash flows from operating activities		
Receipts from customers	\$ 882,714	\$ 317,414
Receipts from interfund services provided	-	-
Payments to suppliers	(418,913)	(208,792)
Payments to employees	(78,230)	(36,422)
Payments for internal services used	(11,409)	(51,181)
Net cash provided by operating activities	374,162	21,019
Cash flows from non-capital financing activities		
Transfers out	(5,500)	(3,550)
Cash flows from capital and related financing activities		
Purchase of capital assets	(362,617)	-
Principal paid on long-term debt	(42,820)	(29,960)
Interest paid on long-term debt	(45,811)	(7,987)
Net cash used for capital and related financing activities	(451,248)	(37,947)
Cash flows from investing activities		
Interest income	9,053	3,713
NET DECREASE IN CASH AND CASH EQUIVALENTS	(73,533)	(16,765)
Cash and cash equivalents at beginning of year	431,949	306,427
Cash and cash equivalents at end of year	\$ 358,416	\$ 289,662
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 308,468	\$ 26,530
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	41,124	42,550
(Increase) decrease in		
Receivables	(115,768)	(485)
Due from other funds	125,190	-
Increase (decrease) in		
Accounts payable	(37,505)	(929)
Accrued liabilities	(1,582)	164
Due to other funds	3,426	(46,553)
Due to other governmental units	50,809	(258)
Net cash provided by operating activities	\$ 374,162	\$ 21,019

The notes to the financial statements are an integral part of this statement.

Business-Type Activities	Governmental Activities
Totals	Internal Service
\$ 1,200,128	\$ -
-	112,348
(627,705)	(52,778)
(114,652)	(16,255)
(62,590)	-
395,181	43,315
(9,050)	-
(362,617)	(151,720)
(72,780)	-
(53,798)	-
(489,195)	(151,720)
12,766	2,103
(90,298)	(106,302)
738,376	340,065
\$ 648,078	\$ 233,763
\$ 334,998	\$ 2,486
83,674	63,790
(116,253)	-
125,190	(24,277)
(38,434)	877
(1,418)	439
(43,127)	-
50,551	-
\$ 395,181	\$ 43,315

CITY OF NORTH MUSKEGON

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

November 30, 2004

	Agency Fund
ASSETS	
Cash and cash equivalents (note A5 and B)	\$ 3,548
LIABILITIES	
Due to other funds (note D)	\$ 652
Due to other governmental units	2,652
Other liabilities	244
TOTAL LIABILITIES	\$ 3,548

The notes to the financial statements are an integral part of this statement.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements

November 30, 2004

Note A - Summary of Significant Accounting Policies

The accounting policies of the City of North Muskegon, Michigan, (city), conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the city the option of electing to apply FASB pronouncements issued after November 30, 1989. The city has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the city are discussed below.

The city adopted GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* as of December 1, 2003. Certain of the significant changes in GASB 34 include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the city's overall financial position and the results of operation.
- Government-wide financial statements prepared using full accrual accounting for all of the city's activities including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on major funds.

The city also adopted GASB 38, *Certain Financial Statement Note Disclosures*, as of December 1, 2003. GASB 38 modifies note disclosures required by GAAP. The adoption of this change in accounting principles had no effect on the financial condition or result of operations of any of the city's funds as of and for the year ended November 30, 2004, but did change some of the disclosures required for the notes to the financial statements.

1. Financial Reporting Entity

The City of North Muskegon, Michigan was incorporated in 1891. The city operates under a Council-Manager form of government and provides the following services as authorized by its charter: legislative, general government, public safety (police and fire), public works, culture and recreation, public improvement, zoning and general administration services. The accounting policies of the City of North Muskegon, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities.

As required by generally accepted accounting principles, Governmental Accounting Standards Board (GASB) Statement 14, the financial statements present the city (the primary government) and its component units, entities for which the city is considered to be financially accountable. Based upon the application of these criteria, there were no component units required to be included in the financial reporting entity of the city.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

1. Financial Reporting Entity (continued)

Joint Venture

•Central Operations for Police Services

The city is a member of an area-wide central dispatch system, Central Operations for Police Services. It is a joint venture of nine governmental units governed by a board composed of representatives of the participants. It is financed through an emergency telephone surcharge to the public and through annual member assessments based on population, composite state equalized valuation of property and the average of service calls placed. The city does not report an equity interest in this joint venture in these financial statements because the city does not have an explicit and measurable right to the joint venture's resources. The city is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial information based on the September 30, 2004 audit report of Central Operations for Police Services follows:

	Governmental Activities
Current and other assets	\$ 5,844,859
Capital assets	1,559,534
<u>Total assets</u>	<u>\$ 7,404,393</u>
Long-term liabilities	\$ 4,183,841
Other liabilities	616,287
<u>Total liabilities</u>	<u>\$ 4,800,128</u>
Net assets	
Invested in capital assets	\$ 437,492
Restricted	1,226,902
Unrestricted	939,871
<u>Total net assets</u>	<u>\$ 2,604,265</u>
Revenues	\$ 3,486,649
Expenses	2,131,433
<u>Change in net assets</u>	<u>\$ 1,355,216</u>

Complete financial statements for Central Operations for Police Services can be obtained from their administrative office at 860 Terrace Street, Muskegon, Michigan 49443.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

2. Basis of Accounting - Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the city as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the city and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the city.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Basis of Accounting - Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the city or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

The city reports the following major funds:

General Fund

The general fund is the general operating fund of the city. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Streets Fund - To account for gas and weight tax allocations to the city by the Michigan Department of Transportation for construction and maintenance of major streets within the city.

Local Streets Fund - To account for gas and weight tax allocations to the city by the Michigan Department of Transportation for construction and maintenance of local streets within the city.

Capital Project Fund

Contingent and Reserve Fund - To receive excess revenues or provide for deficiencies incurred in the general fund.

Public Safety Fund - To account for property taxes received and expenses incurred for public safety capital projects.

Enterprise Funds

Water Fund - To account for user charges, operating expenses and debt service of the city's water system.

Sewer Fund - To account for user charges, operating expenses and debt service of the city's sewer system.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

The following is a description of the three major categories and various fund types within those categories into which the funds are grouped:

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

"Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The city considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within two months of year end. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition

The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the city:

General Fund

The general fund is the general operating fund of the city. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

Governmental Funds (continued)

Debt Service Funds

Debt service funds are used to record the funding and payment of principal, interest and related expenses in connection with certain long-term debt other than debt payable from the operations of the proprietary funds.

Capital Projects Funds

Capital projects funds are used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund and of the city's internal service funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following is a description of the proprietary fund types of the city:

Enterprise Funds

Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Funds

Internal service funds are used to record the financing of goods or services provided by the city to other departments and funds or to other governmental units on a cost reimbursement basis.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

Fiduciary Funds (Not Included in Government-Wide Financial Statements)

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support city programs.

Agency Funds

Agency funds are used to account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The city follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the commencement of the fiscal year, the city manager submits to the city council a proposed operating budget for the fiscal year commencing on December 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted at the city hall to obtain taxpayer comments.
- The budget is legally enacted by passage of an ordinance prior to the start of the ensuing fiscal year.
- The city manager is authorized to transfer budgeted amounts between accounts within the same department of any fund upon written request by a departmental head. The transfer of budgeted amounts between departments within any fund or any revisions that alter the total expenditures of any fund must be approved by the city council.
- Budgeted amounts are presented as originally adopted, or as amended by the city council before November 30, 2004. Individual amendments were not material in relation to the original appropriations which were amended.
- Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- Budgetary control is exercised at the department level.
- Budgets as presented are prepared on the modified accrual basis of accounting.
- All budgetary appropriations lapse at the end of the year.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Principles (continued)

5. Deposits and Investments

Statutes authorize the primary government and component units to deposit and invest in the following:

- In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures no more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- In banker's acceptances of United States banks.
- In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The city maintains a cash pool that is available for use by all funds. Each fund types' portion of the pool is reported in the combined balance sheet as 'cash and cash equivalents.'

The city council has authorized the city to invest in the Comerica Governmental Cash Investment Fund. The city's investment in this fund is classified as 'cash and cash equivalents' on the combined balance sheet.

For the purpose of the statement of cash flows, the city considers all assets held in the cash pool and investment fund to be cash and cash equivalents because the investments can be withdrawn at any time, similar to a demand deposit account.

Investments with a maturity of greater than one year at the date of purchase are stated at fair value, and all other investments are stated at cost or amortized cost.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

6. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

7. Property Taxes

Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on December 1 and are payable from the date of levy through February 14 and are recognized as revenue when they are levied. The city bills and collects its own property taxes and also taxes for the county and the school district in the city. Collections of taxes and remittance of them to other taxing authorities are accounted for in the tax collection fund.

The 2003 adjusted taxable value of the city totaled \$119,992,361 on which ad valorem taxes levied consisted of 9.5840 mills for the general operations of the city, 1.5000 mills for public safety and 1.690 mills for rubbish collection.

The 2003 state equalized valuation of the city was \$153,047,210.

8. Inventories and Prepaid Items

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

9. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

9. Capital Assets and Depreciation (continued)

	<u>Years</u>
Water and sewage systems	20 - 50
Buildings and improvements	10 - 35
Motor vehicles and equipment	4 - 20
Infrastructure	5 - 20

10. Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The city follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, a liability for these amounts is reported in the governmental funds only for employee terminations as of year-end. Vested compensated absences in the proprietary funds are accrued in full.

11. Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

12. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note B - Cash, Cash Equivalents and Investments

Deposits

At year end, the carrying amount of the city's deposits was \$598,716 and the bank balance was \$657,783. Of the bank balance, \$100,000 was covered by federal depository insurance and \$557,783 was uninsured and uncollateralized.

Deposits are categorized below according to level of credit risk:

- Category 1 represents insured or collateralized deposits with securities held by the city or by its agent in the city's name.
- Category 2 represents collateralized deposits with securities held by the pledging financial institution's trust department or agent in the city's name.
- Category 3 represents uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the city's name.

	Category			Bank	Carrying
	1	2	3	Balance	Amount
Demand deposits	\$ 100,000	\$ -	\$ 557,783	\$ 657,783	\$ 598,716

Investments

Investments are categorized below to give an indication of the level of risk assumed by the entity at year end:

- Category 1 includes investments that are insured or registered, or for which the securities are held by the city or by its agent in the city's name.
- Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the city's name.
- Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent but not in the city's name.

	Carrying Amount
Investments not subject to categorization:	
Comerica governmental cash investment fund	\$ 1,114,664
Money market funds	654,985
	<u>\$ 1,769,649</u>

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note B - Cash, Cash Equivalents and Investments (continued)

Total deposits and investments at November 30, 2004 were \$2,368,365 and are presented as follows:

Balance Sheet Classification	Total
Governmental Funds Balance Sheet	
Cash and cash equivalents	\$ 1,482,976
Statement of Fund Net Assets - Proprietary Funds	
Enterprise funds	
Cash and cash equivalents	648,078
Internal Service Funds	
Cash and cash equivalents	233,763
Statement of Fiduciary Net Assets - Fiduciary Funds	
Cash and cash equivalents	3,548
	\$ 2,368,365

Note C - Capital Assets

Capital asset activity for the year ended November 30, 2004 was as follows:

	Balance December 1, 2003	Additions	Deletions	Balance November 30, 2004
Governmental activities				
Capital assets being depreciated				
Land improvements	\$ 260,938	\$ -	\$ -	\$ 260,938
Buildings and improvements	1,871,323	-	-	1,871,323
Office furniture and equipment	840,537	201,191	(119,804)	921,924
Vehicles and equipment	653,773	-	-	653,773
Infrastructure	-	30,652	-	30,652
Total capital assets being depreciated	3,626,571	231,843	(119,804)	3,738,610
Less accumulated depreciation				
Land improvements	183,978	11,049	-	195,027
Buildings and improvements	957,943	55,245	-	1,013,188
Office furniture and equipment	684,650	72,869	(114,948)	642,571
Vehicles and equipment	275,583	34,628	-	310,211
Infrastructure	-	383	-	383
Total accumulated depreciation	2,102,154	174,174	(114,948)	2,161,380

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note C - Capital Assets (continued)

	Balance December 1, 2003	Additions	Deletions	Balance November 30, 2004
Net capital assets being depreciated	\$ 1,524,417	\$ 57,669	\$ (4,856)	\$ 1,577,230
Capital assets not being depreciated				
Land	4,946,506	-	-	4,946,506
Construction in progress	4,721	124,554	-	129,275
Total capital assets not being depreciated	4,951,227	124,554	-	5,075,781
Total governmental activities capital assets net of depreciation	\$ 6,475,644	\$ 182,223	\$ (4,856)	\$ 6,653,011
Business-type activities				
Capital assets being depreciated				
Sewer system	\$ 1,056,845	\$ -	\$ -	\$ 1,056,845
Water system	2,077,165	380,438	(2,749)	2,454,854
Equipment	36,668	-	-	36,668
Structures and improvements	-	13,795	-	13,795
Total capital assets being depreciated	3,170,678	394,233	(2,749)	3,562,162
Less accumulated depreciation				
Sewer system	474,868	14,376	-	489,244
Water system	704,159	37,657	(2,749)	739,067
Equipment	31,373	1,703	-	33,076
Structures and improvements	-	460	-	460
Total accumulated depreciation	1,210,400	54,196	(2,749)	1,261,847
Net capital assets being depreciated	1,960,278	340,037	-	2,300,315
Capital assets not being depreciated				
Land	1,500	-	-	1,500
Construction in progress	31,616	-	(31,616)	-
Total capital assets not being depreciated	33,116	-	(31,616)	1,500
Total business-type activities capital assets net of depreciation	\$ 1,993,394	\$ 340,037	\$ (31,616)	\$ 2,301,815

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note C - Capital Assets (continued)

Depreciation was charged to programs of the city as follows:

Governmental activities	
General government	\$ 7,357
Public safety	33,895
Public works	13,834
Recreation and culture	55,298
Internal service fund depreciation is charged to the various programs based on their usage of the assets	63,790
Total governmental activities depreciation expense	\$ 174,174
Business-type activities	
Sewer	\$ 14,376
Water	39,820
Total business-type activities depreciation expense	\$ 54,196

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note D - Interfund Receivables and Payables

The amounts of interfund receivables and payables at November 30, 2004 were as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 26,231	Major Streets	\$ 203
		Local Streets	2,250
		Sewer	8,162
		Water	14,964
		Tax Collection	652
	26,231		26,231
Major Streets	342	Local Streets	342
Contingent and Reserve	34,818	General	34,818
Equipment	31,228	General	25,888
		Major Streets	365
		Local Streets	399
		Walker Community Center	10
		Sewer	656
		Water	3,910
	31,228		31,228
Total	\$ 92,619	Total	\$ 92,619

The amounts of interfund advances to and from other funds at November 30, 2004 were as follows:

Fund	Advances Receivable	Fund	Advances Payable
Contingent and Reserve	\$ 153,673	Public Safety	\$ 120,000
		Alley Paving District #95-B	775
		Alley Paving District #02-A	32,898
	\$ 153,673		\$ 153,673

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note E - Interfund Transfers

Interfund transfers consisted of the following at November 30, 2004:

Fund	Transfers In	Fund	Transfers Out
Walker Community Center	\$ 4,000	Contingent and Reserve	\$ 86,565
General	82,565		
	86,565		86,565
General	62,878	Public Safety	62,878
General	1,750	Sewer	1,750
General	3,500	Water	5,500
Contingent and Reserve	2,000		
	5,500		5,500
Contingent and Reserve	8,374	Alley Paving District #97-A	8,374
Contingent and Reserve	74,118	General	72,318
		Sewer	1,800
	74,118		74,118
	\$ 239,185		\$ 239,185

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note F - Long-Term Debt

Long-term debt at November 30, 2004 consisted of the following:

Governmental Activities

\$115,000 - 2001 Michigan Transportation Fund Bonds; due in annual installments of \$10,000 to \$15,000 through November 2010; interest at 4.00% to 5.60%. \$ 75,000

Compensated absences 117,360

Total governmental activities long-term liabilities \$ 192,360

Business-Type Activities

\$129,334 - 1983 Northside Water System Bonds; due in annual installments of \$2,521 to \$7,593 through February 2022; interest at 6.00%. \$ 86,850

\$217,170 - Muskegon County Wastewater Management System - Number One, \$13,750,000 Refunding Bond Issue of 1996; due in an installment of \$25,869 including interest at 5.70% on July 2005 25,869

\$895,000 - Water Revenue Bonds, Series 2001; due in annual installments of \$45,000 to \$55,000 through November 2020; interest at 4.50% to 5.40%. 805,000

\$110,521 - Muskegon County Wastewater Management System - Number One, Refunding Bond Issue of 2002; due in annual installments of \$3,162 to \$33,675 through July 2008; interest at 2.25% to 5.00%. 103,239

Total business-type activities long-term liabilities \$ 1,020,958

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note F - Long-Term Debt (continued)

The annual requirements to amortize all bonds and loans outstanding as of November 30, 2004, including interest of \$433,579, follows:

Years ending November 30,	Business-Type Activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2005	\$ 77,020	\$ 51,097	\$ 10,000	\$ 3,305
2006	86,843	47,336	10,000	2,745
2007	86,718	43,211	10,000	2,345
2008	86,603	39,092	15,000	1,935
2009	53,774	34,976	15,000	1,305
2010 - 2014	277,548	135,532	15,000	660
2015 - 2019	280,175	65,275	-	-
2020 - 2022	72,277	4,765	-	-
	\$ 1,020,958	\$ 421,284	\$ 75,000	\$ 12,295

The following is a summary of bonds and loans and compensated absences transactions for the year ended November 30, 2004:

	Balance December 1, 2003	Additions	Repayments	Balance November 30, 2004
Primary government				
Governmental bonds and loans	\$ 156,376	\$ -	\$ (81,376)	\$ 75,000
Business-type bonds and loans	1,093,738	-	(72,780)	1,020,958
Long-term compensated absences	138,144	-	(20,784)	117,360
	\$ 1,388,258	\$ -	\$ (174,940)	\$ 1,213,318

Note G - Defined Benefit Pension Plan

Description of Plan and Plan Assets

The city is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2003.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note G - Defined Benefit Pension Plan (continued)

Description of Plan and Plan Assets (continued)

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

Funding Policy

MERS members are required to contribute 3% of the first \$4,200 of annual compensation and 5% of the portion over \$4,200. The city is required to contribute at an actuarially determined rate; the current rate is 10.34% to 13.91% of annual covered payroll depending on the plan. The contribution requirements of plan members and the city are established and may be amended by MERS.

Annual Pension Cost

For the year ended November 30, 2004, the city's contributions totaling \$69,186 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return, (b) projected salary increases ranging from 0.00% to 4.16% per year and (c) 4.50% per year cost-of-living adjustments. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Fiscal Year Ended November 30,	Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 60,056	100%	\$ -
2003	68,419	100%	-
2004	69,186	100%	-

Note H - Contingent Liabilities

The city is party to various legal proceedings and claims which normally occur in governmental operations. Although the outcome of these legal proceedings and claims is not presently determinable, it is the opinion of the city's management that the resolution of these matters will not have a material adverse effect on the financial condition of the city.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note I - Operating Lease Commitments

The city leases an automobile under a lease which expires in July 2007. Lease payments charged to operations, under this lease, totaled \$1,907 for the year ended November 30, 2004.

The minimum future lease commitments are as follows.

Year Ended November 30		
2005	\$	4,656
2006		4,656
2007		3,103
	\$	12,415

Note J - Risk Management

The city is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The city manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The city pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The city manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The city pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The city carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note K - Wastewater Facility Rights

The city is a participant in the Muskegon County Wastewater Management System, a wastewater treatment facility owned and operated by the county. Members are charged usage fees based on the volume of wastewater treated. In addition, each member municipality has pledged its full faith and credit in repayment of their allocated shares of long-term debt of the system.

The city accounts for the group of transactions substantially in accordance with APB 17, Intangible Assets. The contract payable to Muskegon County is presented as long-term debt. The city's investment in the intangible asset is presented as wastewater rights.

The investment in wastewater rights is amortized over the life of the debt issue.

Note L - Unreserved Fund Deficits

The capital projects fund, alley paving district #02-A, had a fund deficit of \$4,499, at November 30, 2004. In accordance with generally accepted accounting principles, special assessments are recognized as revenue when the individual installments are considered current assets. The fund deficit will be eliminated as the special assessments become current assets.

Note M - Unreserved, Undesignated Fund Balance - General Fund

In accordance with a council resolution, the unreserved, undesignated fund balance in the general fund is maintained at \$25,000. The capital project fund, contingent and reserve, either receives excess revenues or provides for deficiencies. The operating transfer from the general fund to the contingent and reserve fund amounted to \$34,818 for the year ended November 30, 2004.

Note N - Excess of Expenditures over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended November 30, 2004 the city incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

Fund	Amended Budget	Amount of Expenditures	Budget Variance
General			
Public safety	\$ 603,536	\$ 607,383	\$(3,847)

All expenditures over appropriations have either been paid by operating transfers from other funds or by the reduction of the current fund balance.

CITY OF NORTH MUSKEGON

Notes to the Financial Statements - Continued

November 30, 2004

Note O - State Construction Code Act

State Construction Code Act

P.A. 245 of 1999, section 22(1) of the State Construction Code Act, requires fees generated by enforcing agencies or construction board of appeals be intended to bear a reasonable relationship to the actual cost of performing those services.

The fees generated by the city's enforcing agencies and the costs of providing those services were as follows for the year ended November 30, 2004:

Revenues		
Building permits	\$	44,317
Plumbing permits		8,667
Mechanical permits		7,232
Electrical permits		7,679
Total revenues		67,895
Expenditures		
Salaries and wages		28,372
Payroll taxes and fringe benefits		9,832
Contractual services		22,026
Utilities		2,108
Supplies		1,313
Insurance		1,340
Miscellaneous		3,029
Total expenditures		68,020
Deficiency of revenues under expenditures	\$	(125)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORTH MUSKEGON

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues				
Property taxes				
Current taxes	\$ 1,358,780	\$ 1,380,644	\$ 1,352,785	\$ (27,859)
Penalties and interest	2,000	1,635	1,635	-
Total property taxes	1,360,780	1,382,279	1,354,420	(27,859)
Licenses and permits				
Business licenses	4,300	5,500	5,495	(5)
Building permit fees	35,000	43,500	44,317	817
Plumbing permit fees	5,000	8,000	8,667	667
Mechanical permit fees	7,000	7,000	7,232	232
Electrical permit fees	6,000	7,000	7,679	679
Beer and liquor licenses	2,150	2,150	2,310	160
Cable television fees	20,500	21,500	21,684	184
Total licenses and permits	79,950	94,650	97,384	2,734
Federal grants	-	88,900	86,540	(2,360)
State revenues				
State shared revenues	365,914	342,238	340,423	(1,815)
Franchise fees	16,500	-	-	-
Total state revenues	382,414	342,238	340,423	(1,815)
Charges for services				
Sale of compost	3,500	-	-	-
Reimbursements for services	2,000	5,500	5,454	(46)
Rentals	1,200	1,200	1,700	500
Total charges for services	6,700	6,700	7,154	454
Special assessments	-	7,500	10,969	3,469
Fines and penalties	15,500	13,200	13,192	(8)
Reimbursements	39,151	37,076	30,284	(6,792)
Interest	11,000	8,000	7,795	(205)

CITY OF NORTH MUSKEGON

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - Continued

Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues (continued)				
Other				
Cellular tower rentals	\$ 36,457	\$ 22,057	\$ 21,857	\$ (200)
Election	3,500	3,314	3,388	74
Gain on disposal of capital assets	2,000	-	-	-
Miscellaneous	16,500	28,500	31,973	3,473
Total other	58,457	53,871	57,218	3,347
Total revenues	1,953,952	2,034,414	2,005,379	(29,035)
Expenditures				
Current				
General government				
City manager	69,878	71,378	71,411	(33)
Elections	11,600	9,600	9,251	349
City assessor	29,317	26,671	26,631	40
City attorney	24,400	46,000	48,978	(2,978)
City clerk	45,734	45,234	45,014	220
Office - clerical	31,694	31,194	30,883	311
Board of review	700	600	535	65
City treasurer	45,222	44,722	44,517	205
City hall	45,550	45,050	45,621	(571)
Public service building	27,600	43,815	41,022	2,793
Total general government	331,695	364,264	363,863	401
Public safety				
Police department	504,673	475,824	478,640	(2,816)
Fire department	160,740	114,112	115,393	(1,281)
Building inspector	12,400	13,600	13,350	250
Total public safety	677,813	603,536	607,383	(3,847)
Public works				
Sidewalk maintenance	27,250	41,800	41,308	492
Street department	77,832	77,568	75,405	2,163
Engineering	3,000	2,000	2,000	-
Sanitation	203,800	203,800	175,128	28,672
Total public works	311,882	325,168	293,841	31,327

CITY OF NORTH MUSKEGON

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - Continued

Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Expenditures (continued)				
Current (continued)				
Culture and recreation				
City parks	\$ 29,550	\$ 28,050	\$ 27,874	\$ 176
Recreation facilities	32,950	51,100	48,504	2,596
Walker Memorial Library	42,750	42,950	42,211	739
Total culture and recreation	105,250	122,100	118,589	3,511
Other functions				
Unallocated wages	29,900	48,000	44,853	3,147
Employee benefits	408,507	369,438	372,838	(3,400)
Other administration	40,650	47,750	38,775	8,975
Insurance	55,100	65,187	64,576	611
Total other functions	534,157	530,375	521,042	9,333
Capital outlay				
Fire department	-	64,286	49,471	14,815
Recreation facilities	-	75,000	69,257	5,743
Total capital outlay	-	139,286	118,728	20,558
Debt service				
Principal	59,375	59,375	59,000	375
Interest and fiscal charges	3,503	3,503	3,702	(199)
Total debt service	62,878	62,878	62,702	176
Total expenditures	2,023,675	2,147,607	2,086,148	61,459
Deficiency of revenues under expenditures	(69,723)	(113,193)	(80,769)	32,424

CITY OF NORTH MUSKEGON

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - Continued

Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Other financing sources (uses)				
Transfers in	\$ 68,128	\$ 150,693	\$ 150,693	-
Transfers out	-	(37,500)	(72,318)	(34,818)
Total other financing sources	68,128	113,193	78,375	(34,818)
Deficiency of revenues and other sources under expenditures and other uses	(1,595)	-	(2,394)	(2,394)
Fund balances at beginning of year	27,394	27,394	27,394	-
Fund balances at end of year	\$ 25,799	\$ 27,394	\$ 25,000	(2,394)

CITY OF NORTH MUSKEGON

Major Streets Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues				
State revenues				
Gas and weight tax distributions	\$ 198,303	\$ 218,303	\$ 210,959	\$ (7,344)
Franchise fees	-	-	4,669	4,669
Interest	2,300	2,300	3,265	965
Total revenues	200,603	220,603	218,893	(1,710)
Expenditures				
Current				
Public works				
Street maintenance	91,350	91,350	58,264	33,086
Street administration	24,035	24,035	18,768	5,267
Total public works	115,385	115,385	77,032	38,353
Capital outlay	280,000	280,000	55,297	224,703
Total expenditures	395,385	395,385	132,329	263,056
Excess (deficiency) of revenues over expenditures	(194,782)	(174,782)	86,564	261,346
Fund balances at beginning of year	288,447	288,447	288,447	-
Fund balances at end of year	\$ 93,665	\$ 113,665	\$ 375,011	\$ 261,346

CITY OF NORTH MUSKEGON

Local Streets Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues				
State revenues				
Gas and weight tax distributions	\$ 78,000	\$ 90,000	\$ 75,372	(14,628)
Franchise fees	-	-	7,587	7,587
Special assessments	-	-	15,839	15,839
Interest	3,300	3,300	3,623	323
Total revenues	81,300	93,300	102,421	9,121
Expenditures				
Current				
Public works				
Street maintenance	51,900	56,900	48,846	8,054
Street administration	19,306	19,306	13,799	5,507
Total public works	71,206	76,206	62,645	13,561
Debt service				
Principal	10,000	10,000	10,000	-
Interest and fiscal charges	3,905	3,905	3,905	-
Total debt service	13,905	13,905	13,905	-
Total expenditures	85,111	90,111	76,550	13,561
Excess (deficiency) of revenues over expenditures	(3,811)	3,189	25,871	22,682
Fund balances at beginning of year	305,141	305,141	305,141	-
Fund balances at end of year	\$ 301,330	\$ 308,330	\$ 331,012	22,682

CITY OF NORTH MUSKEGON

Schedule of Funding Progress

Municipal Employees Retirement System of Michigan

November 30, 2004

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated.

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Underfunded UAAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2001	\$ 3,446,903	\$ 3,801,731	\$ (354,828)	91%	\$ 750,044	47%
2002	3,479,534	4,052,602	(573,068)	86%	836,198	69%
2003	3,673,302	4,459,505	(786,203)	82%	879,641	89%

SUPPLEMENTAL FINANCIAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Walker Community Center Fund - To account for funds provided for the operation and maintenance of the Walker Community Center.

Summer Recreation Fund - To account for fees charged and expenditures incurred while operating summer recreation programs.

DEBT SERVICE FUNDS

Debt service funds are used to record the funding and payment of principal, interest and related costs on general long-term debt.

Special Assessment #99A - To account for the accumulation of resources and the payment of principal and interest on the 1999 Special Assessment Bonds.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Alley Paving District #94-A - To account for special assessment and interest income received used to finance paving projects.

Alley Paving District #95-A - To account for special assessment and interest income received used to finance paving projects.

Alley Paving District #95-B - To account for special assessment and interest income received used to finance paving projects.

Alley Paving District #96-A, B - To account for special assessment and interest income received used to finance paving projects.

Alley Paving District #97-A - To account for special assessment and interest income received used to finance paving projects.

Alley Paving District #02-A - To account for special assessment and interest income received used to finance paving projects.

CITY OF NORTH MUSKEGON

Non-Major Governmental Funds

Combining Balance Sheet

November 30, 2004

ASSETS	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Totals
Cash and cash equivalents	\$ 9,230	\$ 19,361	\$ 49,040	\$ 77,631
Special assessments receivable	-	-	12,173	12,173
TOTAL ASSETS	\$ 9,230	\$ 19,361	\$ 61,213	\$ 89,804
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 261	\$ -	\$ -	\$ 261
Accrued liabilities	89	-	-	89
Due to other funds	10	-	-	10
Advances from other funds	-	-	33,673	33,673
Deferred revenue	-	-	10,430	10,430
Total liabilities	360	-	44,103	44,463
Fund balance				
Unreserved				
Undesignated	8,870	19,361	17,110	45,341
TOTAL LIABILITIES AND FUND BALANCE	\$ 9,230	\$ 19,361	\$ 61,213	\$ 89,804

CITY OF NORTH MUSKEGON

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Year Ended November 30, 2004

	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Totals
Revenues				
Charges for services	\$ 13,353	\$ -	\$ -	\$ 13,353
Special assessments	-	-	3,333	3,333
Interest	94	365	1,496	1,955
Miscellaneous	5,290	-	-	5,290
Total revenues	18,737	365	4,829	23,931
Expenditures				
Current				
Culture and recreation	20,774	-	-	20,774
Debt service				
Principal	-	12,000	-	12,000
Interest and fiscal charges	-	304	-	304
Total expenditures	20,774	12,304	-	33,078
Excess (deficiency) of revenues over expenditures	(2,037)	(11,939)	4,829	(9,147)
Other financing sources (uses)				
Transfers in	4,000	-	-	4,000
Transfers out	-	-	(8,374)	(8,374)
Total other financing sources (uses)	4,000	-	(8,374)	(4,374)
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,963	(11,939)	(3,545)	(13,521)
Fund balances at beginning of year	6,907	31,300	20,655	58,862
Fund balances at end of year	\$ 8,870	\$ 19,361	\$ 17,110	\$ 45,341

CITY OF NORTH MUSKEGON

Non-Major Special Revenue Funds

Combining Balance Sheet

November 30, 2004

	Walker Community Center	Summer Recreation	Totals
ASSETS			
Cash and cash equivalents	\$ 2,065	\$ 7,165	\$ 9,230
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 261	\$ -	\$ 261
Accrued liabilities	89	-	89
Due to other funds	10	-	10
Total liabilities	360	-	360
Fund balances			
Unreserved			
Undesignated	1,705	7,165	8,870
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,065	\$ 7,165	\$ 9,230

CITY OF NORTH MUSKEGON

Non-Major Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Year Ended November 30, 2004

	Walker Community Center	Summer Recreation	Totals
Revenues			
Charges for services	\$ -	\$ 13,353	\$ 13,353
Interest	18	76	94
Miscellaneous	5,290	-	5,290
Total revenues	5,308	13,429	18,737
Expenditures			
Current			
Culture and recreation	8,684	12,090	20,774
Excess (deficiency) of revenues over expenditures	(3,376)	1,339	(2,037)
Other financing sources			
Transfers in	4,000	-	4,000
Excess of revenues and other sources over expenditures	624	1,339	1,963
Fund balances at beginning of year	1,081	5,826	6,907
Fund balances at end of year	\$ 1,705	\$ 7,165	\$ 8,870

CITY OF NORTH MUSKEGON

Non-Major Capital Projects Funds

Combining Balance Sheet

November 30, 2004

	Alley Paving District #02-A	Alley Paving District #94-A	Alley Paving District #95-A
ASSETS			
Cash and cash equivalents	\$ 26,831	\$ 4,232	\$ 3,610
Special assessments receivable	11,998	-	-
TOTAL ASSETS	\$ 38,829	\$ 4,232	\$ 3,610
LIABILITIES AND FUND BALANCES (DEFICIT)			
Liabilities			
Advances from other funds	\$ 32,898	\$ -	\$ -
Deferred revenue	10,430	-	-
Total liabilities	43,328	-	-
Fund balances (deficit)			
Unreserved			
Undesignated	(4,499)	4,232	3,610
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 38,829	\$ 4,232	\$ 3,610

Alley Paving District #95-B	Alley Paving District #96-A, B	Alley Paving District #97-A	Totals
\$ 3,359	\$ 11,008	\$ -	\$ 49,040
90	85	-	12,173
\$ 3,449	\$ 11,093	\$ -	\$ 61,213

\$ 775	\$ -	\$ -	\$ 33,673
-	-	-	10,430
775	-	-	44,103

2,674	11,093	-	17,110
\$ 3,449	\$ 11,093	\$ -	\$ 61,213

CITY OF NORTH MUSKEGON

Non-Major Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balance Year Ended November 30, 2004

	Alley Paving District #02-A	Alley Paving District #94-A	Alley Paving District #95-A
Revenues			
Special assessments	\$ 2,819	\$ -	\$ 113
Interest	1,173	51	41
Total revenues	3,992	51	154
Other financing uses			
Transfers out	-	-	-
Excess (deficiency) of revenues over other sources	3,992	51	154
Fund balances (deficit) at beginning of year	(8,491)	4,181	3,456
Fund balances (deficit) at end of year	\$ (4,499)	\$ 4,232	\$ 3,610

Alley Paving District #95-B	Alley Paving District #96-A, B	Alley Paving District #97-A	Totals
\$ 231	\$ 170	\$ -	\$ 3,333
65	90	76	1,496
296	260	76	4,829
-	-	(8,374)	(8,374)
296	260	(8,298)	(3,545)
2,378	10,833	8,298	20,655
\$ 2,674	\$ 11,093	\$ -	\$ 17,110

AGENCY FUND

Agency funds are used to account for assets held by the city in a trustee capacity for individuals, private organizations, other governments or other funds.

Tax Collection Fund - To account for levy, collection and payment of taxes levied for the general and other funds of the city, county and public school district.

CITY OF NORTH MUSKEGON

Agency Fund

Statement of Changes in Assets and Liabilities

November 30, 2004

	Balance December 1, 2003	Additions	Deductions	Balance November 30, 2004
<u>TAX COLLECTION FUND</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 6,234	\$ 8,587,122	\$ 8,589,808	\$ 3,548
<u>LIABILITIES</u>				
Due to other funds	\$ 422	\$ 1,558,461	\$ 1,558,231	\$ 652
Due to other governmental units	1,021	3,541,455	3,539,824	2,652
Other liabilities	4,791	6,530	11,077	244
TOTAL LIABILITIES	\$ 6,234	\$ 5,106,446	\$ 5,109,132	\$ 3,548

SCHEDULE OF INDEBTEDNESS

CITY OF NORTH MUSKEGON

Schedule of Indebtedness

November 30, 2004 and 2003

	Date of Issue	Amount of Issue	Interest Rate
Governmental Activities Bonds and Loans Payable			
Installment Sales Contract	1996	\$ 475,000	5.90 %
1999 Special Assessment Bonds	1999	57,000	4.95
2001 Michigan Transportation Fund Bonds	2001	115,000	6.00
			5.60
			4.00
			4.10
			4.20
			4.30
			4.40

Total Governmental Activities Bonds and Loans Payable

Date of Maturity	Balance Outstanding November 30,		Annual Interest Payable
	2003	2004	
2-01-04	\$ 59,376	\$ -	\$ -
2-01-04	12,000	-	-
11-01-04	10,000	-	-
11-01-05	10,000	10,000	3,305
11-01-06	10,000	10,000	2,745
11-01-07	10,000	10,000	2,345
11-01-08	15,000	15,000	1,935
11-01-09	15,000	15,000	1,305
11-01-10	15,000	15,000	660
	85,000	75,000	12,295
	156,376	75,000	12,295

Schedule of Indebtedness - Continued

[illegible]

Date of Maturity	Balance Outstanding November 30,		Annual Interest Payable
	2003	2004	
2-15-04	\$ 2,820	\$ -	\$ -
2-15-05	2,989	2,989	5,211
2-15-06	3,168	3,168	5,032
2-15-07	3,359	3,359	4,841
2-15-08	3,560	3,560	4,640
2-15-09	3,774	3,774	4,426
2-15-10	4,000	4,000	4,200
2-15-11	4,240	4,240	3,960
2-15-12	4,494	4,494	3,706
2-15-13	4,764	4,764	3,436
2-15-14	5,050	5,050	3,150
2-15-15	5,353	5,353	2,847
2-15-16	5,674	5,674	2,526
2-15-17	6,015	6,015	2,185
2-15-18	6,375	6,375	1,825
2-15-19	6,758	6,758	1,442
2-15-20	7,163	7,163	1,037
2-15-21	7,593	7,593	607
2-15-22	2,521	2,521	151
	<u>89,670</u>	<u>86,850</u>	<u>55,222</u>
2004	26,640	-	-
2005	25,869	25,869	1,486
	<u>52,509</u>	<u>25,869</u>	<u>1,486</u>

CITY OF NORTH MUSKEGON

Schedule of Indebtedness - Continued

November 30, 2004 and 2003

	Date of Issue	Amount of Issue	Interest Rate	
Business-Type Activities Bonds (continued)				
Water Revenue Bonds, Series 2001	2001	\$ 895,000	7.00	%
			4.50	
			4.50	
			4.50	
			4.50	
			4.50	
			4.60	
			4.70	
			4.80	
			4.90	
			5.00	
			5.10	
			5.20	
			5.25	
			5.30	
			5.35	
			5.40	
 Muskegon County Wastewater Management System -				
Number One, Refunding Bond Issue of 2002	2002	110,512	2.00	
			2.25	
			5.00	
			5.00	
			5.00	
 Total Business-Type Activities Bonds Payable				
 Total Reporting Entity Bonds and Loans Payable				

Date of Maturity	Balance Outstanding November 30,		Annual Interest Payable
	2003	2004	
2004	\$ 40,000	\$ -	\$ -
2005	45,000	45,000	39,325
2006	50,000	50,000	37,300
2007	50,000	50,000	35,050
2008	50,000	50,000	32,800
2009	50,000	50,000	30,550
2010	55,000	55,000	28,300
2011	50,000	50,000	25,770
2012	50,000	50,000	23,420
2013	50,000	50,000	21,020
2014	50,000	50,000	18,570
2015	50,000	50,000	16,070
2016	50,000	50,000	13,520
2017	50,000	50,000	10,920
2018	50,000	50,000	8,295
2019	50,000	50,000	5,645
2020	55,000	55,000	2,970
	<u>845,000</u>	<u>805,000</u>	<u>349,525</u>
7-01-04	3,320	-	-
7-01-05	3,162	3,162	5,075
7-01-06	33,675	33,675	5,004
7-01-07	33,359	33,359	3,320
7-01-08	33,043	33,043	1,652
	<u>106,559</u>	<u>103,239</u>	<u>15,051</u>
	<u>1,093,738</u>	<u>1,020,958</u>	<u>421,284</u>
	<u>\$ 1,250,114</u>	<u>\$ 1,095,958</u>	<u>\$ 433,579</u>